

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON INGWE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ingwe Municipality, which comprise, the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009 (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ingwe Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Fruitless and wasteful and irregular expenditure

10. As disclosed on note 33.6 to the financial statements, the municipality incurred fruitless and wasteful expenditure due to late payment of the suppliers amounting to R5, 585 and payments for VAT made to a supplier not registered for VAT amounting to R105 599.
11. As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R1, 377 million was incurred, as a proper supply chain management process had not been followed and awards were made to companies owned by persons in the service of the state.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1, *Presentation of Financial Statements*. The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.
14. The other supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in

Government Gazette 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations) and financial management (internal control).

Predetermined objectives

16. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Lack of adoption or implementation of a performance management system

17. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

18. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA and regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

19. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit finding relate to the above criteria:

Inadequate content of integrated development plan

20. The integrated development plan of the municipality did not include the performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Reliability of reported performance information

21. The following criteria were used to assess the usefulness of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Have the amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- Completeness: Have all actual results and events that should have been recorded been included in the reported performance information?

22. The following audit findings relate to the above criteria:

Planned and reported indicators and measures not well defined

23. For the selected programmes, 100% of the planned and reported indicators and measures were not well defined in writing to allow for data to be collected consistently.

Reported information not consistent with planned objectives, indicators and targets

24. The municipality has not reported on its performance against predetermined objectives, indicators and targets which are consistent with the approved integrated development plan.

Reported indicators and targets not reliable (not valid, accurate) when compared to source information

25. For the selected programmes or objectives, 100% of the reported indicators and targets were not valid and accurate on the basis of the source information or evidence provided to support the reported information.

Compliance with laws and regulations

Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

The accounting officer did not adhere to his statutory responsibilities

26. Contrary to the requirements of MFMA Circular No.34 (Reporting of supply chain management awards above R100 000) issued in terms of sections 74(1) of the MFMA, the municipality did not report all contracts awarded above R100 000 to National Treasury within 15 days.

27. Contrary to the requirements of section 62(1)(c) of the MFMA, the municipality did not develop the fraud prevention plan, backup policies, disaster recovery and business continuity plans.

28. Contrary to the requirements of section 64(3) of the MFMA, the municipality did not immediately inform the National Treasury of payments due by the organs of state that were in arrears for more than 30 days.

Payments were not made within the parameters set by the applicable legislation

29. Contrary to the requirements of section 65(2)(e) of the MFMA, the accounting officer did not ensure that the invoices or statements were paid within 30 days receipt of such invoices and statements.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

30. Contrary to the requirements set out in section 62(1)(d) of the MFMA, fruitless and wasteful expenditure was incurred as it was made in vain, and could have been avoided had reasonable care been exercised, as defined in section 1 of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

31. Contrary to the requirements of section 122(1) of the MFMA, the financial statements submitted for audit were subject to material adjustments due to errors and omissions noted during the audit.

Local Government Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)

Non-compliance with the requirements of the code of conduct as per schedule 1 and 2 of the MSA

32. Contrary to the requirements of the Code of Conduct stated in schedules 1 and 2 to the MSA, the municipality did not develop procedures and policies to identify, account for and disclose the related-party relationships, related-party transactions and balances.

Arrears owed by councillors for rates and service charges

33. Contrary to the requirements of section 12A of the MSA, the councillors' rates and services accounts with the municipality were in arrears for a period longer than three months during the year.

Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations)

Supply Chain Management legislative requirements were not adhered to (resulting in irregular expenditure)

34. Irregular expenditure was incurred due to supply chain management processes not being followed, in contravention of regulation 12,16,34,37 and 44 of SCM Regulations.

INTERNAL CONTROL

35. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives, as well as compliance with the MFMA, MSA and SCM Regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.

36. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and

regulations.

Leadership

37. The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control with regard to predetermined objectives, financial reporting and SCM Regulations.

Financial and performance management

38. The systems in place were not adequate to facilitate the preparation of, and reporting on, financial statements in compliance with the MFMA and MSA as the financial statements were subject to material adjustments as a result of the audit. In addition, systems in place with respect to timely payment of suppliers and the identification of conflict of interests and reporting of predetermined objectives were not adequate.

Governance

39. The audit committee did not effectively discharge its oversight responsibility of ensuring that the municipality complied with laws and regulations with respect to predetermined objectives, financial systems and ensuring the effectiveness of the internal audit function.

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence